

Beverages Division

# DELIVERING REFRESHING SOFT DRINKS





Swire Beverages manufactures, markets and distributes refreshing soft drinks to consumers in Hong Kong, Taiwan, Mainland China, and the USA.

# BEVERAGES

## DIVISION

### OVERVIEW OF THE BUSINESS

Swire Beverages has the exclusive right to manufacture, market and distribute products of The Coca-Cola Company (“TCCC”) in Hong Kong, Taiwan, seven provinces in Mainland China and an extensive area of the western USA.

Swire Beverages has two wholly-owned franchise businesses, in Taiwan and the USA, and two majority owned franchise businesses, in Hong Kong and Fujian province in Mainland China. It has jointly controlled interests in six other franchises in Mainland China and an associate interest in a manufacturing company, Coca-Cola Bottlers Manufacturing Holdings Limited, which supplies still beverages to all Coca-Cola franchises in Mainland China.

Swire Beverages manufactures over 63 beverage brands and distributes them to a franchise population of over 440 million people.

### THE BEVERAGES SUPPLY CHAIN



#### Concentrate Plants

TCCC manufactures concentrated beverage base which it distributes to its bottlers, including Swire Beverages.

#### Bottlers

As a Coca-Cola bottler, Swire Beverages converts concentrated beverage base into ready-to-drink packaged beverages at its 16 bottling plants.

#### Sales and Distribution

Swire Beverages sells and distributes ready-to-drink packaged beverages to customers in its franchise territories.

#### Marketing

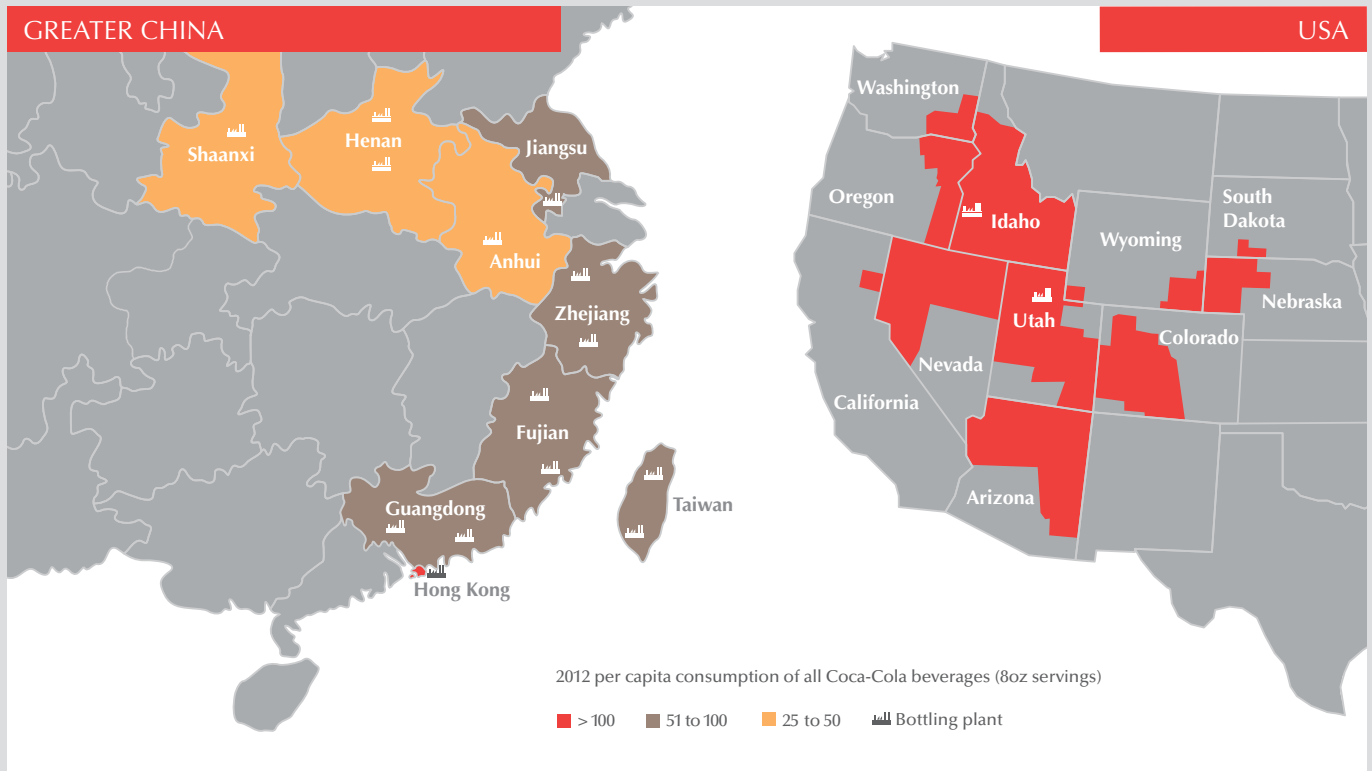
Swire Beverages markets the brands it distributes in accordance with plans developed in conjunction with TCCC.

### Potential Environmental Impacts

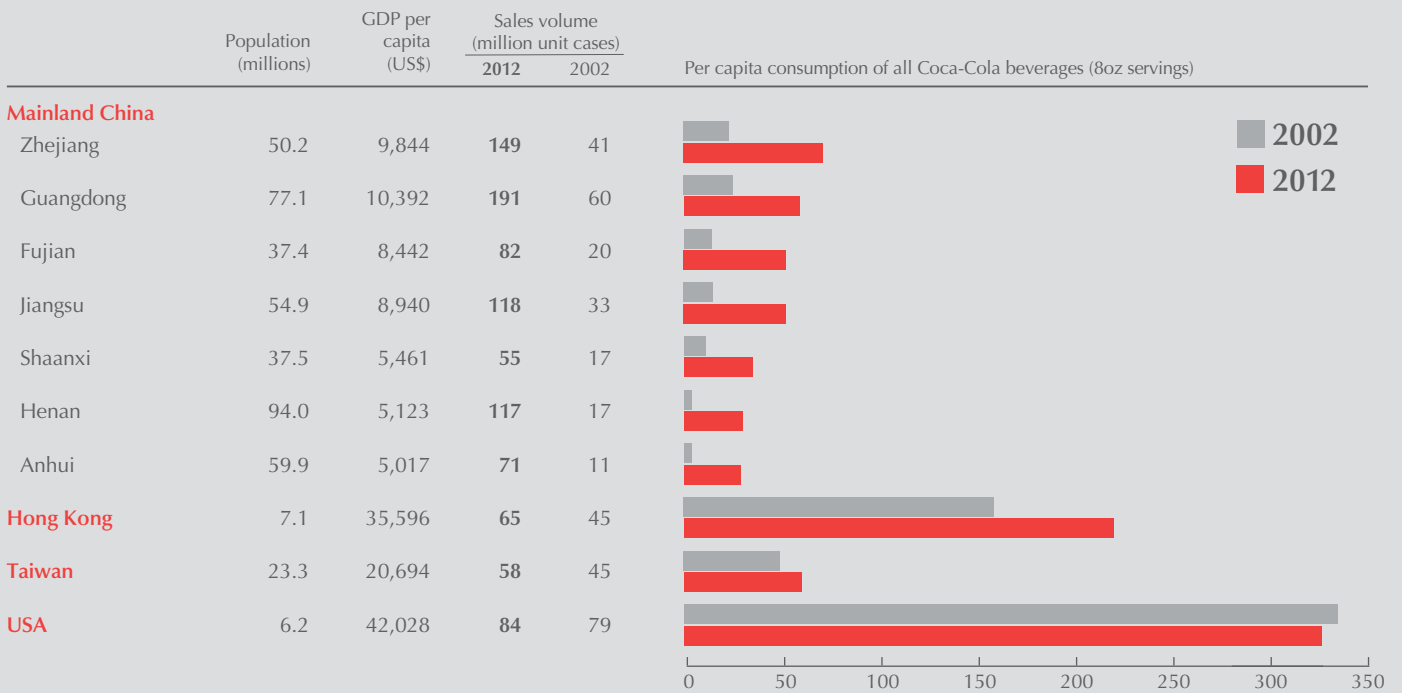
Swire Beverages consumes water, energy and packaging materials. It affects the atmosphere and produces waste.



FRANCHISE TERRITORIES



PER CAPITA CONSUMPTION IN FRANCHISE TERRITORIES



STRATEGY

The strategic objective of Swire Beverages is to build a world-class bottling system which is recognised as a first class employer, a first class entity with which to do business and a first class corporate citizen in all territories where it does business. The strategies employed in order to achieve this objective are:

- An uncompromising commitment to safety and quality.
- A commitment to work with TCCC to improve our understanding of our customers' businesses, and to use that understanding to create value for our customers and consumers.

IMPLEMENTING STRATEGIES

Sales Volume

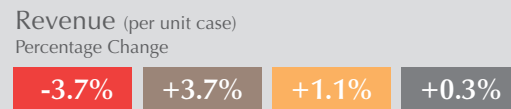
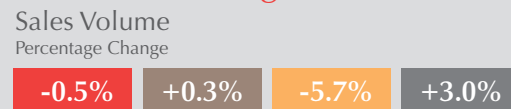
Swire Beverages aims to increase volume and to do so profitably. This can be achieved by making its beverages available in more places, by improving market execution and by selling more brands of beverages and more categories of beverages within brands.

Turnover

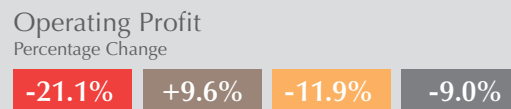
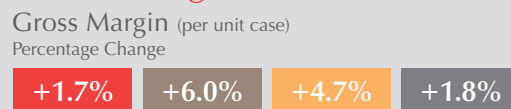
Swire Beverages aims to ensure that sales volume growth is translated into revenue growth. This can be achieved by maintaining or increasing sales prices and by improving the sales mix. The extent to which this is possible depends on the state of the economies in which it operates, consumer habits, competition and resistance by consumers to price increases.

2012 PERFORMANCE

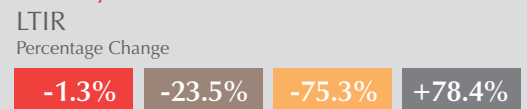
Revenue Management



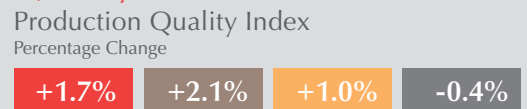
Cost Management



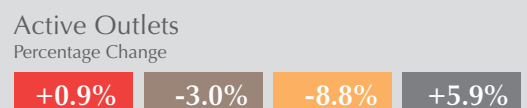
Safety



Quality



Customers



- A focus on market execution in sales outlets, recognising that our business depends critically on selling to millions of consumers through such outlets in our franchise territories every day.
- Effective revenue management, through volume growth and optimisation of pricing and product mix.
- Effective management of costs, through improvements in productivity and efficiency in our supply chain and in sales and distribution.
- A commitment to sustainability, by seeking to reduce the environmental impact of our operations, with a particular focus on water conservation, and by engaging with the communities in which we operate.

### Cost of Sales

Swire Beverages aims to reduce the costs associated with the manufacturing and distribution of its beverage products and at the same time to ensure that high quality goods and services are provided to customers in a cost efficient and effective manner. Swire Beverages seeks to minimise overheads by improving productivity and efficiency.

### Sustainability

Swire Beverages is committed to the sustainable development of the business, in particular by reducing consumption of water and energy and by adopting safe working practices.

## Sustainability

### Water Consumption

Percentage Change



### Energy Consumption

Percentage Change



Mainland China

Hong Kong

Taiwan

USA

## 2012 PERFORMANCE

## FINANCIAL HIGHLIGHTS

	2012 HK\$M	2011 HK\$M (Restated)
<b>Turnover</b>	<b>9,216</b>	9,223
<b>Operating profit</b>	<b>483</b>	537
<b>Share of post-tax profits from jointly controlled and associated companies</b>	<b>323</b>	362
<b>Attributable profit</b>	<b>542</b>	657

## SEGMENT INFORMATION

	Turnover		Attributable Profit/(Loss)	
	2012 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M
Mainland China	1,769	1,854	207	265
Hong Kong	2,123	2,046	178	164
Taiwan	1,500	1,600	14	18
USA	3,824	3,723	165	223
Central costs	–	–	(22)	(13)
<b>Swire Beverages</b>	<b>9,216</b>	<b>9,223</b>	<b>542</b>	<b>657</b>

## Accounting for the Beverages Division

The four wholly-owned and majority-owned franchise businesses (in Hong Kong, Taiwan and the USA and in Fujian province in Mainland China) are accounted for as subsidiaries and fully consolidated in the financial statements of Swire Pacific. Turnover and operating profit shown above, therefore, are attributable to these franchise businesses only. The division's jointly controlled interests in six other franchises in Mainland China and its associate interest in Coca-Cola Bottlers Manufacturing Holdings Limited are accounted for using the equity method of accounting. Swire Pacific recognises its share of net profit or loss from each of these companies as a single line-item in the consolidated income statement.

For reference, the total turnover from the jointly controlled interests in six franchises in Mainland China was HK\$14,503 million (2011: HK\$14,911 million). The turnover of Coca-Cola Bottlers Manufacturing Holdings Limited, excluding sales to the seven franchises, was HK\$4,763 million (2011: HK\$5,659 million). The sales volume for Mainland China shown in the chart on page 59 represents sales in the seven franchises only.

## Note:

The results of the Campbell Swire joint venture (which were previously included in the results of the Beverages Division) have been included in the results of the Trading & Industrial Division from 2012. As a result, the 2011 comparative results for the division have been restated from those in the Group's 2011 statutory accounts.

## BEVERAGE INDUSTRY BACKGROUND

The volume of non-alcoholic ready-to-drink beverages in Mainland China grew by 10% in 2012. The volume of sparkling beverages declined by 2%; that of juice and juice drinks grew by 10%; that of tea declined by 9%; that of packaged water grew by 18%; and that of bulk water grew by 16%. A slowdown in the growth of the Mainland China economy and population shifts away from the export-oriented coastal provinces adversely affected beverage sales, especially in the south and east of the country. A number of successful new products, especially new juices and juice drinks with perceived health and other benefits and ready-to-drink packaged milk tea, gained significant market share at the expense of sparkling beverages and other juice and tea products. Health and safety concerns, and a desire for products which are perceived to deliver specific benefits, are becoming increasingly important to consumers.



Smaller packaging was introduced in Mainland China to give consumers a wider range of product choices.

The Taiwanese beverage market grew by 2% in 2012 reflecting strong growth in sales of tea.

The Hong Kong beverage market grew by 2% in 2012. Sparkling soft drinks volume decreased by 6%. Still drinks volume grew by 3%.

The USA beverage market was solid in 2012. Total volumes increased by 1%.

## 2012 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK\$542 million in 2012, an 18% decrease from 2011. The decrease principally reflected a weak performance in Mainland China, higher taxes in the USA and higher operating costs in all territories.

Overall sales volume declined by 0.5% to 990 million unit cases, compared with growth of 8% in 2011. Volume grew in the USA and Hong Kong but declined in Mainland China and Taiwan.

### Mainland China

Attributable profit from Mainland China was HK\$207 million, a 22% decrease from 2011.

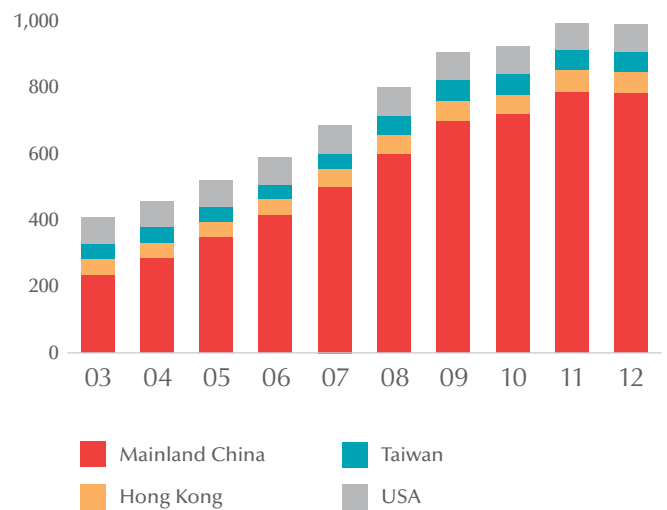
The decrease in profit principally reflected lower sales volume, a less favourable sales mix and higher operating costs.

Sales volume was adversely affected by the slowdown in economic growth, particularly in the export-oriented provinces of southern and eastern China. Volumes grew strongly in inland territories (for example Henan and Anhui), but not enough to offset volume reductions in the southern and eastern markets (for example Guangdong and Zhejiang). Successful introductions by competitors of new juice and tea products also adversely affected sales volumes. Low-margin water sales volume increased by 48%. Juice sales volumes declined by 18%.

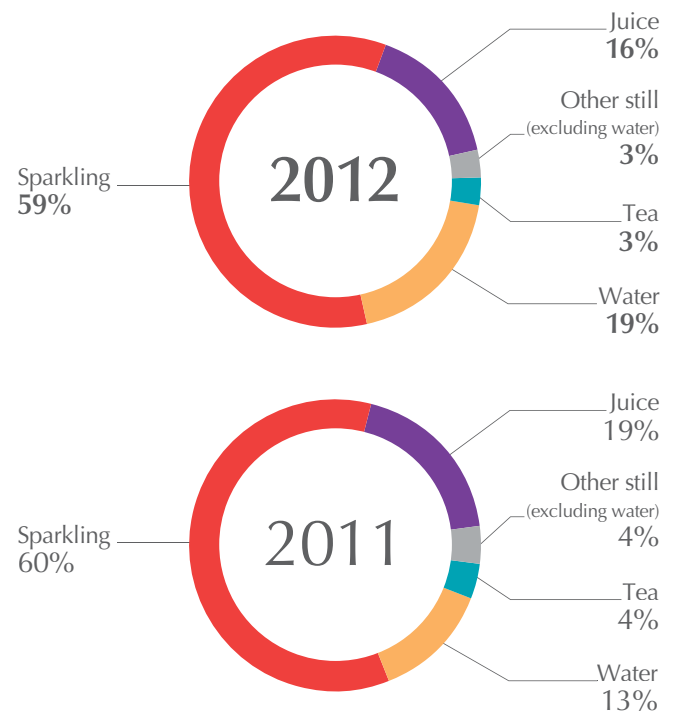
Notwithstanding a decrease in sales volumes and an unfavourable change in sales mix, gross margin increased due to lower raw material costs. However, operating profit decreased by 21% due to a significant increase in operating costs, particularly staff costs (which increased by 11%) and IT costs (due to the introduction of a new Enterprise Resource Planning system).

## SALES VOLUME

Million unit cases



## BREAKDOWN OF TOTAL VOLUME BY CATEGORY







Swire Beverages' water efficiency has improved by 39% between 2004 and 2012. Water consumption was reduced by more than three million cbm in 2012, saving approximately HK\$12 million.

### Hong Kong

Attributable profit from the Hong Kong operation was HK\$178 million, a 9% increase from 2011.

Sales volume increased by 0.3% compared with 2011. Sparkling sales volume increased by 0.6%, reflecting strong growth in sales of the Schweppes brand. Still sales volume was in line with 2011.

Raw material costs increased by 2% per unit case. This increase was more than offset by the favourable effect of improvements in the sales mix and higher prices, resulting in a 6% improvement in margin per unit case.

### Taiwan

Attributable profit from Taiwan was HK\$14 million, a 22% decrease from 2011.

Sales volume fell by 6% compared with 2011, reflecting generally weak retail sales. Sparkling and still sales volumes fell by 7% and 3% respectively. Increased competition and the generally weak retail background restricted the scope for increasing prices, but margins benefited from a 1% per unit case reduction in raw material costs. Profit in 2012 was adversely affected by restructuring costs of HK\$32 million (2011: HK\$24 million). Restructuring is designed to improve the competitiveness of the Taiwan operations.

### USA

Attributable profit from the USA was HK\$165 million, a 26% decrease from 2011.

Sales volume increased by 3%. Sparkling sales volume increased by 2%. Still sales volume increased by 7%. Sales of tea and energy drinks increased significantly.



Schweppes +C Honey Lemon has been a popular product since its launch in Hong Kong in 2012.

Revenues benefited from price increases averaging 0.3%. Margins improved by 2% per unit case compared with 2011, reflecting price increases, changes in the sales mix and lower raw material costs.

Profits were adversely affected by higher fuel, healthcare and retirement benefit costs and by a withholding tax of HK\$29 million paid on a dividend.



Sokenbicha was introduced in the Taiwan market in 2012.

A project to expand warehousing capacity in Salt Lake City (including installation of an automated case picking system) was completed in the second half of 2012. The total investment was HK\$329 million and will improve efficiency.

## OUTLOOK

Swire Beverages is cautiously optimistic about 2013. In Mainland China there are indications that the pace of economic growth will resume. This should benefit the business in Mainland China.

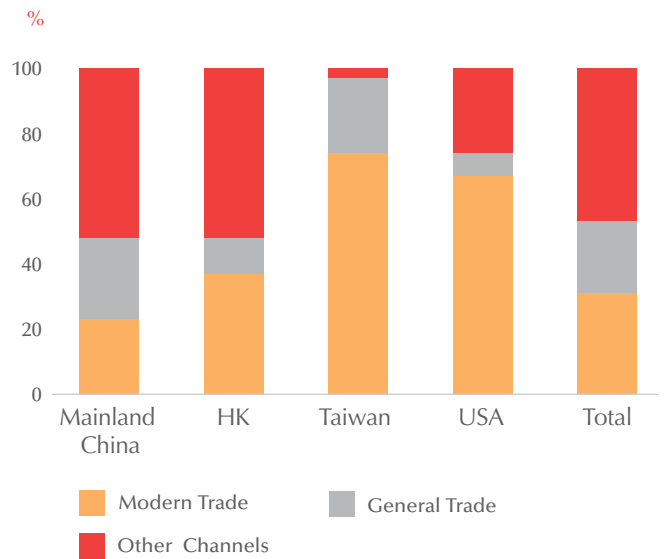
Following completion of its reorganisation, the business in Taiwan is in a good position to reinforce its leading position in the sparkling category and to compete effectively in other categories, especially tea, where there are plans to introduce new products.

The Hong Kong and USA businesses are doing well and should continue to benefit from their strong market positions.

Cost inflation will continue to put pressure on margins in all areas in which Swire Beverages operates. This is especially true of staff costs and distribution costs in Mainland China, which continue to rise. Swire Beverages is reorganising its operations to improve productivity and efficiency so as to offset the effect of increasing costs. The introduction of new products, both within categories in which we currently compete and in new categories, is also a priority.

Patrick Healy

## BREAKDOWN OF TOTAL VOLUME BY CHANNEL



## CAPITAL EXPENDITURE BY OPERATION

